

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE)	
APPLICATION OF DELMARVA)	
POWER & LIGHT COMPANY FOR)	
AN INCREASE IN ELECTRIC BASE)	PSC DOCKET NO. 09-414
RATES AND MISCELLANEOUS)	
TARIFF CHANGES)	
(FILED SEPTEMBER 18, 2009))	

IN THE MATTER OF THE)	
APPLICATION OF DELMARVA)	
POWER & LIGHT COMPANY FOR)	
APPROVAL OF A MODIFIED FIXED)	PSC DOCKET NO. 09-276T
VARIABLE RATE DESIGN FOR)	
ELECTRIC RATES)	
(FILED JUNE 25, 2009))	

DIRECT TESTIMONY OF

JAMES D. COTTON

ON BEHALF OF

THE DIVISION OF PUBLIC ADVOCATE

February 11, 2010

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1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is James D. Cotton and my business address is 199 Ethan Allen
4 Highway, Ridgefield, Connecticut, 06877. My mailing address is P.O. Box
5 810, Georgetown, Connecticut 06829.

6
7 **Q. What is your occupation?**

8 A. I am a Principal and Chairman of The Columbia Group, Inc, a financial
9 consulting firm that specializes in utility regulation. In this capacity, I analyze
10 rate filings and testify in utility rate proceedings. I also undertake special
11 projects in the areas of finance, utility regulation, and other utility-related
12 topics.

13 Since 1976, I have testified on utility regulatory and financial matters
14 in over 130 major utility rate proceedings before state commissions in the
15 states of Delaware, Arizona, California, Connecticut, Georgia, Kansas,
16 Louisiana, Maine, Maryland, Massachusetts, New Jersey, New Mexico, New
17 York, Ohio, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont and
18 Virginia. In Delaware, I have been involved in three water utility rulemaking
19 workshops, two involving Regulation Docket No. 15, and one involving
20 Regulation 51. Additionally, I have submitted testimony in 18 rate cases in
21 Delaware on behalf of the Public Advocate and the Public Service Commission

1 (“Commission”) Staff on accounting and revenue requirements issues. A list
2 of my testimonies may be found at Appendix A.
3

4 **Q. Please summarize your professional experience in the utility industry.**

5 A. I have diverse experience in the utility industry, having worked for a utility
6 company, served as a consultant to municipal utilities, counties, and state
7 agencies, and served as a controller for a cable television division of a major
8 corporation. Prior to my current position, I was a Principal of The Georgetown
9 Consulting Group, Inc. (“GCG”). My duties and responsibilities at that firm
10 were similar to those I now have. Prior to my association with GCG, I was an
11 employee of Citizens Utilities Company. During my first two years at Citizens,
12 I prepared, reviewed and summarized operating and capital budgets for all
13 types of utility services except telephone and including electric. I also prepared
14 various operating reports for management review. During that time, I also
15 analyzed acquisitions for the firm. I was then promoted to the position of rate
16 economist with the responsibility for preparing rate cases.
17

18 **Q. What did you do prior to joining Citizens?**

19 A. Prior to joining Citizens, I spent one year with the New York News as its
20 corporate financial analyst. In that capacity, I prepared operating budgets,
21 analyzed operating variances, and prepared state and federal tax returns. Prior
22 to my position with the New York News, I spent 2½ years with Time, Inc.
23 Initially, I worked as Time, Inc.’s consolidations accountant. I advanced

1 through various assignments until I was promoted to business manager of the
2 cable television division, a controllership position.

3 **II. PURPOSE OF TESTIMONY**

4 **Q. Please explain the purpose of the testimony you are providing in this case.**

5 A. The purpose of my testimony is to recommend a pro forma level of operating
6 income and rate base. These recommendations, in conjunction with the rate of
7 return testimony and the issues regarding rate design, and decoupling
8 testimony submitted by Division of the Public Advocate ("DPA") witness
9 Andrea C. Crane, can be used to determine a revenue requirement award for
10 Delmarva Power & Light Company ("Delmarva", "Delmarva Electric" or the
11 "Company").

12 **III. SUMMARY OF CONCLUSIONS**

13 **Q. Please summarize your conclusions.**

14 A. My conclusions are as follows:

- 15 1. Delmarva is seeking a rate increase amounting to \$27,618,487. This is an
16 increase over "Total Booked Distribution Revenue" of 19.05%.¹
- 17 2. Delmarva has an average rate base based on the average historical Test
18 Period ending March 31, 2009 of \$399,451,670 (see Schedule JDC-2).

¹ From Company Schedule D, Page 1 of 2, Ref. Part II, Para. C-1

1 Delmarva has a pro forma income based on the average historical Test Period
2 ending March 31, 2009 of \$26,925,433 (see Schedule JDC-3).

3 3. Based upon my recommendations for Test Period rate base and pro forma
4 income, and Andrea Crane's recommendations concerning the appropriate
5 rate of return for the Company of 6.34% (see Schedule ACC-2), I
6 recommend that rates be granted to Delmarva Electric that will produce a
7 reduction of \$2,099,819 in revenues (See Schedule JDC-1). This is in
8 contrast to the \$27,618,000 revenue increase requested by the Company at
9 page 6 of Mr. Kamerick's testimony.

10 **IV. TEST YEAR AND TEST PERIOD**

11 **Q. Please discuss the Company's choice of the Test Year and Test Period in**
12 **this case.**

13 A. The Company has chosen the twelve months ending March 31, 2009 as its Test
14 Year. In addition, Delmarva has chosen the same historical Test Year as its
15 Test Period. In other words, both the Test Year and the Test Period are the
16 same historical 12-month period. It is also interesting to note that for both the
17 Test Year and the Test Period, the rate base, as filed, is an average rate base,
18 i.e., the Company has taken the total of the historical 13 months of data and
19 divided the 13-month total by 13 to calculate the average historical 12-month
20 Test Year and Test Period rate base.

21

1 **Q. Is there any particular importance to the Company choosing the historical**
2 **Test Period ending March 31, 2009 as the Company's Test Period?**

3 A. Yes. In Delaware, a utility filing a base rate case can file an actual Test Period,
4 which can be the same as the Test Year (as was done in this case), or it may
5 file an Projected Test Period, such as three months of actual data and nine
6 months of projected data, or such as six months of actual data and six months
7 of projected data. By filing a Test Period that is the same period as the Test
8 Year, then for ratemaking purposes, Delmarva has effectively confined its 12-
9 month Test Period to the actual 12 months ending March 31, 2009.

10

11 **Q. Is it possible for a utility to still file information and data that goes well**
12 **beyond the Test Period?**

13 A. Many of the cases I have been in, in Delaware and elsewhere, that were based
14 upon either actual Test Years or partially Projected Test Periods, have usually
15 included the filing of supportive data that goes beyond the confines of the Test
16 Period chosen. However, based on my experience, the out-of-period data that
17 has been filed has been added to show that a projected amount of Plant-in-
18 Service slipped by only a week or two short of the Test Period end. I
19 personally am not aware of any average historical Test Period cases that I have
20 participated in where the utility filed for an historical Test Period and then
21 received rate base going out after the historical Test Period. By requiring a
22 utility to select an average 12-month Test Period, the Commission has allowed

1 the utility to make an important determination as to what the boundaries and
2 parameters in time will be for the case going forward.

3

4 **Q. What are some of the parameters that are consistent with choosing an**
5 **historical Test Period?**

6 A. Every historical Test Period case that I can recall has confined pro forma
7 adjustments to known and measurable changes within the Test Period. For
8 example, if the historical Test Period ended December 31, 2008, one could
9 only make known and measurable changes due to a rate change (not a
10 volumetric change) within the historical Test Period. For example, if the utility
11 experienced a three percent wage increase on November 30, 2008, one might
12 expect a pro forma adjustment to annualize that wage increase by repricing the
13 salaries and wages of existing employees to reflect the three percent increase.
14 Another typical adjustment may have been to reduce the salaries and wages
15 based on historical Test Period year-end number of employees or customers, or
16 to adjust revenues based on the year-end number of customers. However,
17 volumetric changes, such as adding employees or amounts of plant in an
18 average historical Test Period, are “out” because they are clearly volumetric in
19 nature.

20

21 **Q. In your example, what would be your response if the utility included a**
22 **salary and wage increase one day after the historical Test Period end?**

1 A. I would generally seek to oppose such an adjustment as being outside of the
2 Test Period. I would similarly oppose any out-of-period Construction Work in
3 Progress (“CWIP”) adjustments requested.

4

5 **Q. Would commissions usually allow or disallow the salary and wage increase**
6 **or the CWIP in rate base one day after the Test Period?**

7 A. Usually the situation was not quite that clear because the salary and wage
8 increase was further outside the Test Period, and the CWIP became plant-in-
9 service shortly after the Test Period. What finally happened in some of the
10 states in which I testified, was that the commission rules started giving utilities
11 the right to file partially Projected Test Periods, called Future Test Periods or
12 years, which requires updates from projected amounts to actual. This
13 development is why I have not seen a historical Test Period for a major electric
14 or gas utility for some time. Virtually all the cases in which my firm
15 participates are based on the utility company having chosen a Test Period that
16 ends closest to the rate effective period.

17

18 **Q. What are some of the problems with going beyond the boundaries of a**
19 **Test Period, whether it is an actual or Projected Test Period?**

20 A. For starters, I believe it is a violation of Commission rules. A Test Period,
21 particularly an actual one, such as the Company filed here, consists of 12
22 months of actual data. Because it is actual, the requirement for updating that
23 data, as one would have for a partially estimated Test Period, is not required

1 and not appropriate for a historical Test Period. Both in Delaware and other
2 states, actual (historical) Test Year filings are never updated because all the
3 data is actual at the time of filing.

4 Also, if an actual Test Period is “updated” to another period, one has
5 usually effectively extended some of the elements of rate base, revenues and
6 expenses, but not others. For example, suppose a utility recommended using
7 historical Test Period (March 31, 2009) revenues but also estimated expenses
8 as of March 31, 2011. This would create a mismatch (in time) of the regulatory
9 triad of rate base, revenues and expenses. This violation against the regulatory
10 principle of matching rate base, revenue and expenses should be avoided
11 because it causes an intergenerational inequity, forcing today's ratepayers to
12 pay for expenses for tomorrow's ratepayers. In addition, a mismatch in time
13 would turn a 12-month Test Period into a 24 or 36-month Test Period. A Test
14 Period must end with all three elements of the triad synchronized, and in this
15 case the **Company** decided that it should end March 31, 2009.

16
17 **Q. At page 4 of his testimony, Mr. VonSteuben says, “It is my belief that,**
18 **with the adjustments presented in this filing, this test period provides a**
19 **matching of revenues, expenses and rate base consistent with Commission**
20 **regulations and represents a reasonable basis for establishing the**
21 **Company’s revenue requirements for the rate effective period.” Do you**
22 **agree with Mr. VonSteuben’s claim?**

1 A. No, I disagree. The historical Test Year and Test Period chosen by the
2 Company ended March 31, 2009. While the Company can make adjustments
3 within the Test Period to normalize expenses, compute cash working capital
4 using Test Period data, normalize revenues using actual weather related data,
5 or annualize expenses using known contractual wage adjustments within the
6 historical Test Period, utilities cannot be permitted to cherry pick rate base or
7 expense adjustments outside of the historical Test Period. Such adjustments
8 badly distort the balance of the regulatory triad that Mr. VonSteuben somehow
9 believes he has created.

10 For example, both Messrs. VonSteuben and Gausman have two
11 adjustments that extend plant-in-service well beyond the chosen Test Period
12 for "Reliability Plant Closings." These adjustments increase rate base by some
13 \$30 million, and, inappropriately, extend the Company's rate base calculation
14 to December 31, 2009, or a full nine months beyond the Company selected
15 Test Period. The Company's future rate base adjustment cannot even be trued-
16 up because true-ups are not appropriate for historical Test Periods. Thus, the
17 Company's projected adjustments confound and stymie a regulatory triad
18 match at a point in time.

19

20 **Q. Is there no flexibility with regard to the historical Test Period?**

21 A. It should be noted that aside from choosing an historical Test Year as its Test
22 Period, Delmarva also chose an average rate base, weighting each actual month
23 as one-twelfth (1/12th) in the calculation of its Test Period. Therefore, the

1 Company's filing is based on an **historical** Test Period with an **average rate**
2 **base** as its anchor. The significance of this point is that Delmarva's post-Test
3 Period rate base adjustments violate its average rate base methodology. When
4 historical Test Periods were more prevalent, utilities that wanted to make their
5 test periods more prospective generally chose year-end Rate Bases, not average
6 Rate Bases as Delmarva has done. Delmarva's methodology can be seen by
7 comparing the Company's Adjustment 19 at Schedule WMV-21 with the
8 historical average rate base numbers in the section entitled "Delmarva Power
9 & Light Company Rate Base Workpapers March 2009 Test Period Average" -
10 RB#3 to RB#10, obviously creating a mismatch in time and value.

11
12 **Q. What exactly is the mismatch?**

13 A. To demonstrate, please turn to Workpaper RB#6. Since the average rate base
14 takes all 12 months of rate base data and divides by 12 to get the actual rate
15 base value, any additions during the year only receive a fractional amount of
16 value. For example, at RB#6, a September 2008 addition of \$1.00 in plant-in-
17 service is only worth approximately \$0.50 in (average) rate base. A March
18 2009 addition of \$1.00 in plant-in-service is only worth approximately \$0.08 in
19 average plant-in-service.

20 In contrast, the out of period Delmarva claim for plant-in-service at
21 Adjustments 18 and 19, worth \$16 million, goes into rate base at \$16 million,
22 or dollar for dollar. Not only are the out-of-period adjustments inappropriate

1 for ratemaking on regulatory grounds, they are inconsistent with Delmarva's
2 own rate base claim.

3

4 **Q. Have you found any Company-initiated adjustments that actually would**
5 **be a match for the Company's claimed historical Test Period?**

6 A. Yes. In this case, within the "matching" confines of the Company's actual Test
7 Period, the Company has made a couple of normalization adjustments that
8 substantially increase revenue requirements, and do match up with the
9 Company's chosen historical rate base and Test Period. One of them I will
10 accept later and one I will reject, but at least they match up within the
11 boundaries of an average historical Test Period. These adjustments are
12 Delmarva's weather normalization adjustment (worth approximately \$2.9
13 million in revenue requirements), and the normalization of storm damage
14 expenses that increases the Company's Revenue Requirement by
15 approximately \$1.1 million. When I discuss these adjustments later in my
16 testimony, I will argue the merits or demerits of the adjustments, but the
17 important point is that at least these two adjustments do not violate the
18 regulatory principles for using an historical Test Period. This unfortunately is
19 in contrast to most of the Company's out-of-period adjustments that do
20 mismatch revenues expenses and rate base.

21

22 **Q. Are you contesting the use of the actual Test Period chosen by the**
23 **Company?**

1 A. No. The selection of the actual Test Period ending March 31, 2009 is a valid
2 selection by Delmarva and is consistent with the rules of this Commission and
3 the rules that govern the filing of rate cases in the 20 odd states and
4 jurisdictions where I have testified.

5 While, I do not contest the selection of an historical Test Period, I am
6 contesting virtually every Delmarva supported adjustment that extends its
7 chosen Test Period beyond March 31, 2009. The Company's adjustments
8 extend the amount of rate base or expenses months or even years beyond the
9 end of the Test Period. Such inappropriate adjustments add millions upon
10 millions of dollars of unjustified revenue requirements, while the Company
11 revenues remain locked into March 31, 2009 levels.

12

13 **Q. What was the advantage to Delmarva of claiming an average rate base as**
14 **opposed to a year-end rate base?**

15 A. I believe that one advantage is that Delmarva was not compelled to compute
16 and claim typical Test Period-end adjustments that favor lower customer rates,
17 such as year-end adjustments for customer additions, number of employees,
18 increased usage, the growth in the reserve for depreciation, etc. In fact, any of
19 these typical year-end Test Period adjustments would only be a clear match
20 with a year-end rate base.

21

1 **Q. What is the Test Period in this case?**

2 A. Once again, the Test Period in this case consists of the 12 months ended March
3 31, 2009. It is an average rate base Test Period. This is noted many times in the
4 Company's filing. I accept this as Delmarva's Test Period in this case.

5

6 **Q. Mr. Cotton, you have gone to some length in this case to explain that the**
7 **Test Period in this case is an historical Test Period ending March 31, 2009,**
8 **including an average Rate Base claim by Delmarva. Why do you keep**
9 **emphasizing this?**

10 A. My reason for emphasizing these facts is because most of Delmarva's claims
11 that lead the Company to its request for a \$27 million rate increase are due to
12 Test Period adjustments that have no basis in fact, that is, they were not known
13 and measurable during the historical Test Period and they are not reflected in
14 the historical Test Period. I urge the Commission to reject the Company's
15 adjustments that 1) extend the Test Period months and even years beyond the
16 Test Period ending March 31, 2009; 2) are related to reports or events that
17 happened well after the end of the Test Period, such as Actuarial Reports; 3) are
18 based on the creation of new departments and the hiring of additional
19 employees in future periods; or 4) add forecasted plant-in-service that was not
20 even CWIP in the Test Period. No matter how appealing and how persuasive
21 some of the Company's arguments may sound, if an adjustment is not based on
22 events that were within the historical Test Period, it should not qualify as a Test
23 Period adjustment.

1

2 **Q. Mr. Cotton, you say that with the Company's choice of an average**
3 **historical Test Year and Test Period means that both end March 31, 2009.**
4 **When does the Company claim its Test Period ends?**

5 A. The Company's Test Period adjustments do not have any specific end date, as
6 each of its adjustments reflect different points in time. For example, Mr.
7 VonSteuben at Schedule No. A, Ref. Part 1, Para. B-1&2, claims the following
8 Test Year and Period:

9	Test Year	12 Months Ending March 31, 2009
10	Test Period	12 Months Ending March 31, 2009

11 However, for Pro Forma Adjustment Purposes:

- 12 1. Adjustment No. 4, Uncollectible Expense, the Test Period is 6 Mos.
13 Actual and 6 Mos. Budget, year ending December 2009.
- 14 2. Adjustment No. 5, Wage and Salary Expense, Test Period ends April
15 2011.
- 16 3. Adjustment No. 8, OPEB Expense, Test Period ends December 31,
17 2009.
- 18 4. Adjustment No. 7, Employee Benefits, Test Period ends in the "Rate
19 Effective Period."
- 20 5. Adjustment No. 9, Pension Expense, Test Period ends December 31,
21 2009.
- 22 6. Adjustment No. 16, IRP Costs, Test Period ends –Not Sure.

- 1 7. Adjustment No. 18, Reliability Plant Closings, Test Period ends July
2 2009.
- 3 8. Adjustment No. 19, Reliability Plant Closings, Test Period ends
4 December 2009.
- 5 8. Adjustment No. 20, AMI Costs, Test Period ends One Year after
6 AMI is approved.
- 7 9. Adjustment No. 20.1, Test Period ends July 2009.
- 8 10. Adjustment Nos. 21-25, Test Period ends March 2009.

9 In other words, I am not sure when the Company's Test Period adjustments
10 end, if ever, but I know it is well after the claimed Test Period ends.

11

12 **Q Are you saying that all of these adjustments should be rejected because**
13 **they are not known and measureable adjustments that occurred during**
14 **the historical Test Period?**

15 A. Yes, that is exactly what I am saying.

16

17 **Q. The Company filed several exhibits or schedules that claim expenses that**
18 **will occur beyond the 12 months of the Test Period. Is this sufficient to be**
19 **considered a projected or estimated Test Period?**

20 A. No, a group of cherry picked adjustments do not add up to a filing based on a
21 Projected Test Period. First, the Company's claim is that it has filed an
22 historical Test Period, which ends March 31, 2009, not December 31, 2009, or
23 March 31, 2010, etc. All historical Test Periods end on the very last day of the

1 historical Test Period year, and in this case that is March 31, 2009. Second, an
2 estimated Test Period requires that all elements of expense, rate base and
3 revenues be based upon forecast values as of the end of the Projected Test
4 Period. For example, the Company has not included customer additions
5 beyond March 31, 2009, as would be required in a Projected Test Period filing.
6 The Company has not included additional revenues due to usage increases (or
7 decreases) after March 31, 2009. Pro forma depreciation reserves and the
8 deferred tax reserve claims (both of which would reduce rate base) do not
9 reflect increases beyond March 31, 2009. There are no productivity increases
10 to offset 2009 and 2010 salary and wage adjustments claimed by the Company
11 that occur after March 31, 2009. In addition, the Company's massive revenue
12 normalization adjustment, amounting to approximately \$4.1 million in
13 additional revenue requirements, is based on 12 months ending March 31,
14 2009, and not on some later period.

15 **V. RATE BASE**

16 **A. Construction Work in Progress ("CWIP")**

17 **Q. What is Construction Work in Progress?**

18 A. CWIP is plant that is under construction, but is not as yet used and useful.
19 According to the testimony of Mr. VonSteuben, some of Delmarva's CWIP is
20 in fact used and useful, but was not as yet transferred to Plant in Service (see
21 page 38 of VonSteuben). The reason that these projects have not been moved

1 to plant-in-service is because there is a lag that "...allows for follow on
2 charges, transfers and other post construction costs to be properly associated
3 with the work before the assets are utilized and placed in the electric
4 accounts." (Id.) These are the projects that the Company wishes to remove
5 from CWIP and move into plant-in-service and into rate base.

6
7 **Q. Does this make sense to you?**

8 A. No, it does not. This is a large utility with a service company and a staff that
9 should be capable of closing the books for a Test Period ending March 31,
10 2009, and file a rate case by September 18, 2009, or almost 6 months later. I
11 have never worked in a plant department, but I did work in the rate department
12 (of Citizens Utility Company) where we prepared rate cases with short target
13 deadlines. There was never a problem for the plant department to close the
14 monthly plant accounting books in plenty of time to file the rate case on a
15 timely basis. That was also in an era before personal computers when all plant
16 calculations were prepared by hand using calculators and adding machines. I
17 do not recall any instances in my 30-plus year career in testifying in utility-
18 related matters, in dozens of utility filings, where a utility claimed that an
19 amount of CWIP should (or should not) be put into plant or in rate base
20 because it still needed to be vetted. All of these comments also pertain to the
21 Reliability Plan, which I will discuss next.

22 For these reasons, I recommend that any Delmarva CWIP claim be
23 rejected for inclusion in rate base. If the CWIP was not vetted by the time the

1 Company had planned to file the case, the utility should have waited until it
2 was vetted to be included in rate base. In addition, I have a similar problem
3 here as I do with the next adjustment referred to as the "Reliability Plant"
4 adjustment. There is no discussion or specificity on the Company's part
5 regarding the specific plant adjustments, why the plant was not included in
6 plant in service in the historical rate base in the first place, and specifically, the
7 plant items involved.

8
9 **Q. What is your CWIP adjustment?**

10 A. I have eliminated \$13.3 million of CWIP, as shown at Schedule JDC-2. In
11 addition, I have removed the benefits of \$253,479 in AFUDC income at
12 Schedule JDC-3.

13 **B. Reliability Plant Closing Adjustment April 08-July 09**

14 **Q. Please describe Delmarva's Adjustments numbers 18 and 19 for**
15 **Reliability Plant Closings through July 2009.**

16 A. These adjustments are described by Mr. VonSteuben in his testimony at page
17 36. A reliability project appears to be a construction project that is not in
18 service in the Test Period, but will be in service prior to the rate effective
19 period (by December 31, 2009), or as much as nine (9) months past the Test
20 Period end. Mr. VonSteuben seems to believe that the inclusion of these rate
21 base plant-in-service projects and their earnings effects (revenue requirements)
22 is necessary to better "...match the benefit that customers would realize during

1 the rate-effective period to the cost of service associated with these projects.”
2 He then goes on to say, “To exclude the revenue requirement effect of these
3 projects would not allow the Company to have timely cost recovery for
4 projects that are serving current customers.”
5

6 **Q. How much in net rate base does this amount to?**

7 A. Delmarva Adjustments 18 and 19 amount to an additional rate base of
8 approximately \$39.1 million (consisting of \$30.2 million in Plant, decreases of
9 \$8.8 million in Depreciation Reserve, and \$1.1 million in Deferred Taxes), as
10 well as a reduction in Operating Income of \$513,963 (see Schedule JDC-4).
11

12 **Q. Do you agree with Mr. VonSteuben?**

13 A. Absolutely not. Again, Mr. VonSteuben chose an average historical Test
14 Period ending March 31, 2009, and he is wedded to it. It consists of 12 months
15 of actual data, not 21 months (including 12 months of actual data and 9 months
16 of additional estimated data) pertaining only to plant-in-service and related
17 revenue requirements. Not only are Adjustments 18 and 19 untimely and well
18 beyond the Test Period, but unlike the Test Period data, they are not actual, and
19 they are not average. The nine months of estimated data is added in total to the
20 Test Period, rather than averaged over nine months and then added to the Test
21 Period ending March 31, 2009.
22

1 **Q. Is there anything else that makes these Adjustments inappropriate?**

2 A. Yes. Even if this were an Estimated Test Period, which it is not, there is no
3 explanation supporting these plant additions. There is no showing of why this
4 plant is even needed by customers, what the details regarding the plant are, and
5 why it is necessary to ignore good utility regulation and Commission rules
6 when considering it.

7

8 **Q. Please summarize why you recommend rejection of the two adjustments**
9 **described by the Company as Reliability Closings.**

10 A. The adjustments mismatch in time the regulatory triad consisting of rate base,
11 revenues and expenses. In addition, the adjustments would extend the Test
12 Period from 12 months to 21 months, thereby distorting the Test Period and
13 unfairly and unreasonably increasing the Company's revenue requirement.
14 Further, the Company filed an average historical Test Period. These plant-in-
15 service adjustments are not averaged, as is the Test Period rate base, but are
16 simply added on in total. Finally, the Company has not justified any of this rate
17 base increase amounting to approximately \$38 million and causing an earnings
18 deficiency of approximately \$600,000, that all told increase the revenue
19 requirement in this case over \$5 million (see JDC Summary Schedule). This is
20 an unprecedented regulatory proposal.

21

1 **Q. What do you recommend?**

2 A. I recommend denying Company Adjustments 18 and 19, which I have done in
3 my Schedule JDC-4. My adjustment reduces Plant by \$30.2 million, increases
4 Depreciation Reserve \$8.8 million, increases Deferred Taxes \$0.1 million, and
5 increases Operating Income \$513,963.

6 **C. Amortization of AMI-related Deferred Costs**

7 **Q. What is Delmarva claiming with regard to AMI Deferred Costs?**

8 A. Delmarva has created a deferred account to collect costs associated with
9 Advanced Metering Infrastructure (“AMI”). The costs consist of “...the
10 deferred incremental expenses for the planning, designing and developing
11 associated with the Company’s AMI-related initiatives performed through July
12 2009 in accordance with the Commission’s Order approving the use of the
13 regulatory asset to install the Company’s AMI system in Delaware.”²

14

15 **Q. Did the Commission conclude that the AMI costs through July 2009 be**
16 **accrued as a regulatory asset with carrying costs and amortized over three**
17 **years as an expense, and for the unamortized piece to be included in rate**
18 **base?**

19 A. No, that is not my reading of Order No. 7420. What the Order does say at
20 pages 25 and 26 is:

² Gausman’s Testimony, page 15.

1 Delmarva should offer its proposal to permit it to establish a regulatory
2 asset to cover recovery of costs associated with the deployment of
3 Advanced Metering Infrastructure and demand response equipment in
4 its next base rate case. The Commission, the Staff, and other parties
5 remain free to challenge the level or any other aspects of the asset's
6 recovery in rates when Delmarva seeks recovery of the regulatory asset
7 in base rates. For ratemaking purposes, the Commission may wish to
8 consider an appropriately valued regulatory asset for advanced
9 metering infrastructure investment consistent with the matching
10 principle giving consideration to both costs and savings in the context
11 of its next base rate case proceeding;

12 Once again, this Delmarva adjustment violates the matching principle and thus
13 fails the regulatory test.

14

15 **Q. Are there any more pieces of Delmarva's AMI claim that need to be**
16 **considered?**

17 A. Yes, there are two pieces. The first is that Delmarva is asking for recovery
18 through July 2009. But of course, I have already discussed at length that the
19 Test Period ended March 31, 2009, and so that is the "deadline" for
20 adjustments, and this date is earlier than this Adjustment contemplates. In
21 addition, Mr. Kamerick suggests throughout his testimony that Delmarva's
22 Smart Grid technology is being aggressively pursued. Delmarva has "signed
23 contracts with key providers and is currently testing 7,500 "smart meters" and
24 is preparing full deployment beginning this year and continuing through
25 2010."³. In my opinion, this confirms that this project will not be completed
26 until sometime in 2010. In fact, Mr. Kamerick indicates on page 7 of his

³ Kamerick Testimony, page 5.

1 testimony that full deployment will not occur until November 2010 - more than
2 one and a half years beyond the end of the Test Period.

3 Second, Mr. VonSteuben does not paint a rosy picture of the current
4 progress regarding AMI metering. At page 31 of his testimony, he says, "At
5 this time, there are many unknowns" regarding AMI metering, "Among these
6 are the results of the Field Acceptance Test (FAT) and the exact deployment
7 schedule that will follow." Mr. VonSteuben adds that full deployment is
8 currently not expected "to be completed until the 4th quarter of 2010 at the
9 earliest," and that "[o]perational benefits will not begin to be realized until
10 early 2011." As a result, even Mr. VonSteuben says that the Company should
11 "continue deferring costs and savings until the Company's next base rate
12 proceeding."⁴

13
14 **Q. Do you agree that this should be deferred until the next case?**

15 A. Yes, I believe that Delmarva is in no position to collect an amortization or
16 depreciation of the AMI project until it is fully deployed and in service, and
17 then the collection period should follow the life of the benefits. In addition, as
18 Mr. VonSteuben states at pages 30-31 of his testimony regarding the AMI
19 program, "costs and benefits will not be fully realized during the rate effective
20 period, the Company's proposal in this proceeding is to continue deferring
21 costs and savings until the Company's next base rate proceeding. These

⁴ VonSteuben Testimony, pages 31-32.

1 matching of costs and benefits could then be better reflected in the Company's
2 next base rate case filing."

3
4 **Q. What has Delmarva actually done regarding an adjustment for AMI?**

5 A. In the "Adjustment Summary" page, and as Adjustment 20 and Adjustment
6 20.1, Delmarva has amortized AMI Related Deferred Costs. This adjustment
7 has been extended to July 2009 (instead of March 31, 2009), and the
8 adjustment contains 19 months of data in total. In summary, Delmarva has
9 claimed a deferred cost of \$517,866 in rate base and a reduction of \$207,146 in
10 earnings, when in fact, there should be no claimed costs at all, as the deferrals
11 are ongoing and better suited to inclusion in the next base rate case.

12

13 **Q. What is your recommendation?**

14 A. I have appropriately reversed the adjustment at Schedules JDC-2 and JDC-3.

15 **D. Amortization of Actual Refinancing Costs**

16 **Q. Please describe Delmarva's Adjustment 21 regarding the Company's**
17 **request for ratemaking treatment of the costs associated with certain**
18 **refinancing.**

19 A. It appears that Delmarva has made refinancings in the past to the benefit of
20 ratepayers. Delmarva has gone back as far as August 1993 to include
21 unamortized refinancing balances. As an example, at Company Schedule
22 WMV-23, Page 1 of 3, the amortization period extended 290 months or 24

1 years. Therefore, the amortization period extended right through the Test
2 Period ending March 31, 2009. Also, it appears that Delmarva is only
3 capturing the amortization for the Test Period ending March 31, 2009, or the
4 chosen historical Test Period. To compute the net average balance, Delmarva
5 used the net average balance for the historical 12 months of the Test Period
6 only. For all these reasons, I accept the Company's adjustment with regard to
7 the amortization of Loss/Gain on Refinancings of \$3,511,495 to rate base, and
8 the \$318,000 decrease to Test Period operating income.

9
10 **E. Cash Working Capital**

11 **Q. Have you reviewed the Company's claim for cash working capital?**

12 A. Yes, and I will make two recommendations. First, once the Commission has
13 determined an appropriate revenue requirement and rate increase for Delmarva
14 Electric, I recommend that Cash Working Capital be recomputed based upon
15 those allowable levels. Second, I ask the Commission to order Delmarva to
16 present a new cash working capital study in the next base rate case. It is
17 unfortunately true that the cash working capital study in this case was based
18 upon the cash working capital study from the last case, approximately five
19 years ago, and I believe it needs to be updated in virtually every case.

1 **VI. PRO FORMA INCOME**

2 **A. Weather Normalization of Revenues**

3 **Q. Have you reviewed Company Adjustment No. 1, relating to weather**
4 **normalization?**

5 A. Yes, I have, and I have a few comments. First, I note that Delmarva has
6 confined its analysis and adjustments to the Test Period (i.e., to its chosen
7 historical Test Period), and therefore, to the twelve months ending March 31,
8 2009.

9 Secondly, Delmarva has adjusted the actual data both for heating
10 degree days and cooling degree days, calculated using actual degree day
11 (“DD”) data collected by the NOAA (U.S. National Oceanic and Atmospheric
12 Administration). The data used was based on a NOAA 30-year rolling average.
13 Once the difference between normalized and actual sales was determined it
14 was applied to each revenue class at the average rate per kWh by revenue
15 class.

16

17 **Q. What was the Company’s result of its analysis and computations?**

18 A. The result was an adjustment to decrease pro forma revenues by \$4,193,218,
19 and to decrease pro forma income under current rates by \$2,477,583 (see
20 Company Schedule No. 1-B).

21

1 **Q. Do you consider Delmarva's method a reasonable computation method?**

2 A. Yes, I do.

3 **B. Normalization of Injuries and Damages Expense**

4 **Q. Have you reviewed Delmarva's claim for Injuries and Damages expense?**

5 A. Yes, I have and I believe that there is insufficient evidence to support the
6 Company's position that the chosen historical Test Period data needs to be
7 normalized. Both the twelve months ending March 31, 2007 and March 31,
8 2008, were greater than the actual Test Period ending March 31, 2009, but that
9 is not particularly unusual or abnormal. In any given Test Period, there are
10 going to be variations in the data. It is the burden of the Company to produce
11 data or provide reasons supporting why a particular Test Period amount
12 appears abnormal and why it needs to be to be normalized. My review
13 indicates that no reasons were cited where this data was abnormal or why a
14 normalization must be made. Therefore, I recommend that the actual Test
15 Period (Test Year) amount of \$2,142,326 from Schedule WMV-5 be used, and
16 that Delmarva's normalization adjustment decreasing pro forma income by
17 \$80,181 be denied. See Schedule JDC-3.

18

19 **Q. Hasn't Mr. VonSteuben, at page 13 of his Testimony cited that in two**
20 **base rate cases ago (Docket No. 03-127) and the last base rate case (Docket**
21 **No. 05-304), that a three year average was taken?**

1 A. Yes, and I will quote the Commission's Decision in the last base rate case on
2 CWIP because I believe it is as applicable here. "Each case stands on its own
3 facts, and the facts presented in Docket No. 91-20 are different than those
4 presented in this case."⁵

5

6 **Q. What are some of the different facts from the last case?**

7 A. This is an actual Test Period ended March 31, 2009. This is not a projected
8 Test Period. One of the reasons an historical Test Period is chosen is because it
9 is presumed normal unless proved otherwise.

10

11 **Q. What is your conclusion?**

12 A. My conclusion is that there is no persuasive reason why the Test Year and Test
13 Period amount should be changed. Therefore, at my Schedule JDC-3, I have
14 reversed the Company's adjustment, and I am staying with the Test Year and
15 Test Period expense amount. The result of my adjustment is an increase of
16 \$80,181 in Operating Income.

17 **C. Adjustment for Uncollectible Expense**

18 **Q. What is the purpose of Company Adjustment No. 4?**

19 A. The purpose of the adjustment is to increase the amount of historical Test
20 Period Uncollectible expense from the actual amount of \$2,155,000 to Mr.
21 VonSteuben's estimate of \$2,744,000. Mr. VonSteuben offered to update his

⁵ Order No. 6930, Docket No. 05-304, page 22.

1 estimate to reflect actual results at the end of the calendar year, December 31,
2 2009.

3

4 **Q. What is wrong with this conceptually?**

5 A. Everything. This is an historical, actual Test Period that ended March 31, 2009.
6 The Test Year and Test Period was the Company's choice. The Company
7 specifically rejected using a Projected Test Period. Since the choice was not to
8 use projections or estimates for the Test Period, there is really little point in
9 updating it. It is fundamentally bad ratemaking to project or estimate one item
10 when the entire rest of the case is actual. Even the portion of the Company's
11 projection that is based on actual data comes from the period January 2009
12 through June 2009, or three months beyond the Test Period end. See Company
13 Schedule WMV-6, Adjustment 4.

14

15 **Q. Has the Company introduced any other new data within the Test Period**
16 **that might persuade the Commission of its position?**

17 A. No, it has not. Therefore, at Schedule JDC-3, I have adjusted the Test Period
18 back to the twelve months ending March 31, 2009, and have therefore
19 increased Operating Income by \$349,691.

1 **D. Pension Expense**

2 **Q. Please explain Delmarva's pension expense request in this proceeding.**

3 A. Mr. Kamerick discusses Delmarva's pension expense situation at length at
4 pages 15 and 16 of his testimony. He begins by saying that on May 1, 2009,
5 (already two months beyond the Test Period end) when this case was filed, and
6 based upon **estimates** of Delmarva's outside actuaries, it was **projected** that
7 Delmarva would incur a pension expense estimated to be \$7.313 million for
8 the year ended December 31, 2009. In fact, according to Mr. Kamerick, the
9 Delaware portion of pension expense currently being recorded in Delmarva's
10 financial statements is even higher - \$7.886 million. Mr. Kamerick stated that,
11 the "...increase is a direct result of the current adverse economic conditions,"
12 which were not of the Company's making and outside its control.

13

14 **Q. Exactly how much is Delmarva seeking for pension expense in this case?**

15 A. Delmarva is seeking \$15,264,500 based upon its 2009 Actuarial estimates. The
16 Final Actuarial Report for 2009 was filed in August 2009, well after the Test
17 Period (see Adjustment 9 prepared by Mr. VonSteuben).

18

19 **Q. How much of an increase in Pension expense do you believe is**
20 **appropriate?**

21 A. When an historical Test Period with an average rate base is chosen for the year
22 ending March 31, 2009 rate base, the appropriate Test Period pension expense
23 is the pension expense for the 12 months ending March 31, 2009. In this case,

1 that pension expense amount is found at Adjustment 9 and is \$4,448,660.
2 Delmarva **chose** the March 31, 2009 historical Test Period presumably because
3 it represented a “normal” Test Year and a “normal” Test Period. Under
4 Commission rules, the Company had the right to choose that Test Year and
5 Test Period. However, I have already shown at pages 9 and 14 of my testimony
6 how Delmarva is really suggesting a dozen or more different Test Periods for a
7 variety of adjustments in this case. The reason for this variety of Test Periods, I
8 believe, is because for each adjustment, one projected or actual Test Period
9 appears to be more beneficial to the Company than another. In this instance,
10 not only was a projected Test Period 2009 number more beneficial than the
11 actual March 31, 2009 amount, it also presents the opportunity to collect any
12 missed greater amounts than were included in rates through the Company’s
13 Petition in Docket 09-182.

14
15 **Q. What do you recommend?**

16 A. Accordingly, I have made an adjustment at Schedule JDC-3, reversing the
17 Company's pension adjustment, and increasing Operating Income by \$3.4
18 million. I recommend that pension expense in this case should be based on the
19 12 Months ending March 31, 2009, or \$4,448,660.

20
21 **Q. Do you have any comment regarding the Company’s proposed accounting**
22 **treatment for pensions that has recently been combined with this**
23 **proceeding?**

1 A. Please see Ms. Crane's testimony on this issue.

2 **E. OPEB Expense Adjustment**

3 **Q. Please explain the OPEB expense adjustment.**

4 A. The adjustment revolves around the same concept that I used for the Pension
5 Expense Adjustment. The fact is that the total Electric OPEB Expense for the
6 12 months ending March 2009 actual is \$6,774,557 (see VonSteuben
7 Adjustment No. 6). However, Delmarva claims OPEB expense through
8 December 31, 2009, as estimated in the 2009 Actuarial Report, some nine (9)
9 months after the historical Test Period chosen by Delmarva.

10 As discussed by Mr. VonSteuben, Delmarva's adjustment caused a
11 decrease to earnings of \$418,000. Therefore, in this case, reversing Delmarva's
12 adjustment results in an increase to earnings of \$418,241. See Schedule JDC-3.

13 **F. Normalization of Storm Damage Expense**

14 **Q. Please describe Delmarva's adjustment to normalize Storm Damage**
15 **Expense (Adjustment 11).**

16 A. Delmarva's explanation of this adjustment seems limited to claiming it is
17 consistent with the Decision in the last case and that it normalizes storm
18 damage expense based on a three-year average.⁶

⁶ VonSteuben Testimony, page 18.

1

2 **Q. Do you agree with this adjustment?**

3 A. No, I do not. The choice of any historical Test Period presumes to select a Test
4 Period that is considered to have reasonably normal operating conditions.
5 There is no reason to believe that the operating conditions for Delmarva's
6 chosen Test Period were not fairly normal. In addition here is the data
7 presented at Schedule WMV-13:

8	<u>System Electric</u>	
9	12 m/e 3/31/07	\$13,925,647
10	12 m/e 3/31/08	\$12,203,697
11	12 m/e 3/31/09	<u>\$10,262,988</u>
12	Average	\$12,130,777

13 I am against the Company's position for the following reasons. First, Delmarva
14 has not suggested why the previous two years were higher than the current Test
15 Year, or why the current Test Year was abnormally low. If anything, the three
16 years of numbers would suggest that storm restoration expense is trending
17 downward. One reason for this downward trend is that productivity in the
18 Electric Industry is currently listed at 3% per annum.⁷ Second, the Company
19 witness says that this adjustment is consistent with the treatment approved in
20 Docket No. 05-304. That reliance upon the decision in the last case is, in my
21 opinion, misplaced. In fact, it is worth repeating that in the last case regarding
22 CWIP, the Commission decided, "Each case stands on its own facts, and the
23 facts presented in Docket No. 91-20 are different than those presented in this

⁷ See Statistical Abstract of the United States,

1 case.” Therefore, considering all of these factors, I am recommending that the
2 Company adjustment, which does nothing more than take a three year average
3 of Storm Damage expense, be denied. I have made this adjustment to increase
4 Operating Income by \$652,372 at Schedule JDC-3.

5 **G. Audit Costs**

6 **Q. Please describe Company Adjustment No. 13.**

7 A. Company Adjustment No. 13 is with regard to the Company’s Cost
8 Accounting Manual (“CAM”) audit (the “Audit”). According to Mr. Von-
9 Steuben’s testimony, at page 19, this adjustment was authorized by the
10 Commission on August 18, 2009, some four and one-half (4½) months after
11 the historical Test Period ended.

12
13 **Q. How large an adjustment is it?**

14 A. It amounts to \$99,352, “amortized” over a three-year period. In addition, Mr.
15 VonSteuben explains at page 19 of his testimony, that at the time of its filing,
16 the results of this audit were not known, so that there may be additional costs
17 and charges that could be related to this audit, although the Company has
18 undergone recent audits regarding the CAM, and no deficiencies have been
19 found.

1

2 **Q. Would you like to comment first on Mr. VonSteuben's actual adjustment?**

3 A. Yes. Adjustment No. 13 to reflect Management Audit Expense is shown at
4 Schedule WMV-15. It starts with the cost of the Management Audit of
5 \$99,352, removes State and Federal income taxes, and reduces pro forma
6 earnings by \$58,960, which causes an annual revenue requirement of
7 approximately \$99,352.

8 The problem with this adjustment is that if the amount of time between
9 this case and the next rate case is approximately four years, Delmarva would
10 receive total revenues in the amount of four (4) times \$99,352, or
11 approximately \$400,000 for a single estimated expenditure of \$99,352.

12 I believe that what Mr. VonSteuben wanted to do was amortize this
13 estimated cost over four years. However, no amortization was actually made.
14 Therefore, based on the most recent Delmarva base rate case being
15 approximately four years old when new rates go into effect, the adjustment
16 should have been an expense claim of \$24,838 (\$99,352 / 4 years), with no
17 added rate base effect.

18

19 **Q. Do you believe Delmarva is entitled to the recovery of any portion of the**
20 **Audit expense in this case?**

21 A. No, I do not. As mentioned, the Audit was approved by the Commission in
22 August 2009, some 4½ months after the end of the historical Test Period. And,
23 by the time of the filing of this case in September 2009, the Audit had not been

1 done. As far as I am concerned, this is still another example of Delmarva filing
2 an historical Test Period, filled with projected adjustments that are reflective of
3 a subjectively determined projected Test Period. The Commission should not
4 allow these adjustments. They are not within the Test Period chosen by the
5 Company. I have reversed the Company's claim and reflected this overall
6 adjustment at Schedule JDC-3. The effect of my adjustment is to increase
7 Operating Income by \$58,960.

8 **H. Cost of Energy Experts**

9 **Q. Please describe Adjustment 14 for the inclusion of energy experts.**

10 A. This Company adjustment is for a projected 23 additional full time employees
11 to staff the Company's call center. The object is to have advisors and
12 specialists at the ready, so customer calls can receive an immediate response. It
13 is claimed by Delmarva that these additional people are needed to help meet
14 the State energy goal of reducing electric energy usage by 15% by 2015. At
15 page 20 of his testimony, Mr. VonSteuben says that it is necessary to have
16 these people to create two additional tiers of contact for the customer.

17
18 **Q. How much is Delmarva's claim in this case for these additional**
19 **employees?**

20 A. The cost of these energy experts is \$1,478,237 per annum for Delmarva
21 Electric, or a reduction to pro forma jurisdictional earnings of \$877,260, as
22 shown at Adjustment 14 of Schedule WMV-16.

1

2 **Q. Where do you stand on this issue?**

3 A. I do not see anything within the Test Period that indicates that these advisory
4 services are needed at this time, or even that the utility needs to provide them.
5 As at matter of fact, Delmarva has not shown that any hiring will occur before
6 sometime in 2010. Finally, a \$3 million program is quite a leap. It might be
7 wiser for Delmarva to start this type of program with a few people, and do a
8 much more rigorous analysis as to exactly what is needed. Because of the
9 untimeliness of the adjustment with respect to the historical Test Period, and
10 because, at this point there is no evidence of its need or value, I have
11 eliminated this adjustment from pro forma income at my Schedule JDC-3. The
12 effect of my adjustment is to increase Operating Income by \$877,260.

13 **I. Credit Facilities**14 **Q. Please describe Adjustment 25, Credit Facilities Costs.**

15 A. According to the testimony of Mr. VonSteuben at page 33, "This adjustment
16 provides for recognition for the test period cost of the Company's share of the
17 PHI credit facility." He then says "An adjustment is necessary due to the
18 accounting for this cost in the Company's financial statements as interest
19 expense, which is not incorporated in the embedded cost of debt and therefore,
20 without this adjustment, would not be included in rates at all."

21

1 **Q. Do you agree with this adjustment?**

2 A. No, it is unnecessary. The Credit Facility is either used to supplement cash
3 working capital or to support the Company's overall capital structure. The
4 Company is already being fully compensated for its cash working capital
5 through its Cash Working Capital Lead/Lag Study claim in rate base.

6 Moreover, I understand that the Company has not included this Credit
7 Facility or any short-term debt in its Capital Structure claim. In fact, the
8 Company only has in its Capital Structure claim significantly more expensive
9 Long-Term Debt and Equity. If anything, I would expect that the Short-Term
10 Debt in the capital structure would decrease the cost of service to ratepayers.

11

12 **Q. How do you know that the Company's cost of capital has excluded short-**
13 **term debt?**

14 A. According to Mr. VonSteuben, in the quote stated above, it "...is not
15 incorporated in the embedded cost of debt ..." Accordingly, there is no short-
16 term debt component in the Company's recommended capital structure.

17

18 **Q. Please describe your adjustment.**

19 A. Based on Mr. VonSteuben's Adjustment 25, I have removed the Company's
20 Average Amortizable Balance of \$159,588 from Rate Base (see Schedule JDC-
21 2), and have added \$78,393 back into Pro forma Income (see Schedule JDC-3).

1 **J. “Mitigation” for Pension Costs, OPEB, And Uncollectible Expenses**

2 **Q. Please discuss Delmarva’s price mitigation adjustment.**

3 A. As first raised in Mr. Kamerick’s testimony at page 9, the Company’s rate
4 mitigation program proposes to take three costs “...largely outside of
5 management control...” and recover these costs over a three-year rolling
6 average of these costs through a pension, OPEB and uncollectible expense rate
7 mechanism, called a Volatility Mitigation Rider (Rider VM). This would allow
8 Delmarva to defer the difference between the average and the currently
9 incurred amounts of costs for future rate treatment.

10

11 **Q. Does this sound like a reasonable regulatory practice to you?**

12 A. No, it does not. This so-called rate mitigation plan is simply a reimbursement
13 plan for the utility via a surcharge, and sound regulation is not based on a
14 reimbursement system. In all states, both those that have good utility regulation
15 and those that do not, utilities choose a Test Year, either historical or partially
16 estimated going forward, using data to build a pro forma or estimated view of
17 the world within the confines of their chosen Test Period. Sometimes the
18 estimates prove to be accurate and sometimes not. There is risk involved in
19 each rate case. And that of course is why utilities receive a risk-adjusted rate of
20 return. The utility may actually earn higher returns than its awarded rate of
21 return. And it should not get reimbursement ratemaking to help guarantee its
22 rate of return, as Delmarva is proposing here for these three items. I know of
23 only one large exception allowed for reimbursement by Delmarva’s electric

1 operations, and that involves the fuel clause, which is simply a reimbursement
2 scheme for fuel procurement. That is already equivalent to much more than
3 one-half of Delmarva's revenues, and that is more than enough reimbursement.
4 Delmarva chose not to base its claim on an estimated Test Period, and
5 Delmarva has badly exaggerated many of its Test Period expenses. Delmarva
6 does not need a true-up mechanism, especially one that looks very much like a
7 surcharge, which this Commission has been loath to grant.

8
9 **Q. Mr. Cotton, what is your response to Delmarva's "Rider VM Mitigation**
10 **Strategy?"**

11 A. As mentioned, this does not help ratepayers, and it is just designed for
12 Delmarva to avoid risk.

13 **K. Reversal of Non-Executive Incentive Compensation**

14 **Q. Please describe the Company's non-executive incentive compensation.**

15 A. According to the testimony of Mr. VonSteuben at page 17 of his testimony,
16 non-executive incentives included in the Test Period are part of the total
17 compensation package paid to employees, and these programs help extend the
18 time between rate cases. He adds that these incentives are used to motivate
19 employees to be more efficient and productive and to meet goals, and that
20 some of the goals are explicitly related to safety. He goes on to say at page 17,
21 "In particular, all of the programs have an employee measure such as safety.
22 All of the programs also have a customer satisfaction component as well as a

1 reliability measure. Finally, the programs all have financial components such
2 as O&M expense control, managing capital expenditures and achieving our net
3 income targets overall, which, if achieved, lower the revenue requirements to
4 customers and will extend time between base rate filings."
5

6 **Q. What is your reaction to this adjustment?**

7 A. It should be noted that Mr. VonSteuben, regarding Adjustment 10, states at
8 page 16 that in the Order in the last case, the Commission "...did allow the
9 incentives that are triggered by the achievement of safety, reliability and
10 similar goals," and similarly did not allow Incentive Compensation that was
11 tied to financial objectives for executives. Therefore, in this case, Mr.
12 VonSteuben did not include an Executive Incentive Compensation claim, and
13 instead made an adjustment of \$1,145,000 to remove it from the Test Period.
14 However, he did claim Non-Executive Incentive Compensation as part of
15 Delmarva's expense claim in this case.
16

17 **Q. Please describe your analysis regarding Incentive Compensation for Non-**
18 **Executives.**

19 A. I believe that the reasoning for not allowing Incentive Compensation should be
20 the same for both executive and non-executive employees. In the preceding
21 case, executive incentive compensation, which was tied to earnings, was
22 eliminated for ratemaking purposes because it was tied to increasing earnings,
23 which was to the benefit of shareholders, not ratepayers. On page 17 of his

1 testimony, Mr. VonSteuben indicates that the Non-Executive incentive
2 programs "...all have financial components ...and achieving our net income
3 targets overall..." I do not see the difference between the Non-Executive
4 Incentive Compensation to achieve the Company's "net income targets overall"
5 and the Executive Incentives to also achieve financial results.

6 The claim that the Incentive Compensation is to improve safety raises
7 serious concerns because it implies that without this incentive, employees
8 would be somehow unsafe. That is hard to believe and a very sad note on
9 employees' commitments to themselves and others. I believe that no utility
10 company should have to pay incentive compensation for employees to be safe.

11 Last, Mr. VonSteuben says that all of the programs have a customer
12 satisfaction component. Like safety, it is hard to believe that employees need
13 incentive compensation to try to satisfy customers. To work safely and to
14 satisfy customers should be a very basic part of the job. Therefore, I have
15 made an adjustment at Schedule JDC-6 decreasing Operating Expense by
16 \$2,159,153 and increasing Operating Income by \$1,281,349.

17
18 **Q. Are you against paying Non-Executive employees competitive salaries and**
19 **wages?**

20 **A.** Absolutely not. In fact, in the next case, I urge the Company to show that it
21 does pay competitive salaries and wages, and to show why Executive and Non-
22 Executive Incentive Compensation is a fair charge to ratepayers.

1 **L. Adjustment to Company's Proposed Wage and FICA Expense**

2 **Q. Please describe Mr. VonSteuben's Adjustment No. 5 for the Company's**
3 **known wage changes (increases) through 2010.**

4 A. Delmarva wishes to include several wage increases as known and measurable
5 wage increases that it expects will be incurred through 2010. The computation
6 incorporates the contractual wage increases of 3.00% for IBEW Local 1307,
7 which was in June 2008, and the 3.00% contractual wage increase for February
8 2009. I have no concern about including the effects of these increases on an
9 annualized basis for the Test Period ending March 31, 2009. That is the
10 appropriate treatment for a wage rate change within the Test Period.

11 However, for all the aforementioned reasons regarding the appropriate
12 treatment of adjustments for an historical (average) Test Period, the wage
13 increases claimed after March 31, 2009, the June 2009 increases for Locals
14 1238 and 1307, and the estimated 2010 1.50% wage increases for Local 1238
15 and 1307 have been eliminated. They are beyond the Test Period chosen by the
16 Company, and the last two are not known and measurable. They are simply
17 projected.

18

19 **Q. What is your adjustment?**

20 A. My adjustment increases Operating Income by \$115,558 in Operating Income
21 and is shown at Schedule JDC-5.

1 **M. Interest Synchronization**

2 **Q. Have you adjusted the pro forma interest for Federal income tax**
3 **purposes?**

4 A. Yes, I have made this adjustment for Federal and state income tax purposes. It
5 is consistent (synchronized) with my recommended rate base and Ms. Crane's
6 capital structure and cost of capital recommendations. Our recommendations
7 result in a lower interest expense, which is an income tax deduction for income
8 tax purposes, and results in an increase to the Company's income tax liability
9 given my recommendations. Therefore, our recommendations result in an
10 interest synchronization adjustment that reflects a higher income tax burden for
11 the Company, and a decrease to pro forma income of \$755,398, as shown at
12 Schedule JDC-7. This adjustment should be updated based on the final Order
13 in this proceeding.

14

15 **Q. Does this conclude your testimony?**

16 A. Yes, it does.

DELMARVA POWER AND LIGHT COMPANY

TEST PERIOD ENDING MARCH 31, 2009

REVENUE REQUIREMENT SUMMARY

	Company Claim (A)	Recommended Adjustment	Recommended Position	
1. Pro Forma Rate Base	\$452,600,566	(\$53,148,896)	\$399,451,670	(B)
2. Required Cost of Capital	7.97%	-1.54%	6.43%	(C)
3. Required Return	\$36,072,265	(\$10,387,523)	\$25,684,742	
4. Operating Income @ Present Rates	19,753,719	7,171,714	26,925,433	(D)
5. Operating Income Deficiency	\$16,318,546	(\$17,559,236)	(\$1,240,690)	
6. Revenue Multiplier	1.692460	-	1.692460	
7. Revenue Requirement Increase	<u>\$27,618,487</u>	<u>(\$29,718,305)</u>	<u>(\$2,099,819)</u>	

Sources:

(A) Company Filing, Schedule No. 1-B, page 1 of 5.

(B) Schedule JDC-2.

(C) Schedule ACC-2.

(D) Schedule JDC-3.

DELMARVA POWER AND LIGHT COMPANY

TEST PERIOD ENDING MARCH 31, 2009

RATE BASE SUMMARY

	Company Claim (A)	Recommended Adjustment		Recommended Position
1. Utility Plant in Service	\$907,144,290	\$ (30,240,324)	(B)	\$876,903,966
2. Intangible Assets	10,079,522	0		10,079,522
Less:				
3. Accumulated Depreciation	(360,361,075)	(8,788,686)	(B)	(369,149,761)
4. Net Utility Plant	\$556,862,737	(\$39,029,010)		\$517,833,727
Plus:				
5. Construction Work in Progress	\$13,311,425	(\$13,311,425)		\$0
6. Plant Held for Future Use	0	0		0
7. Materials and Supplies	9,943,265	0		9,943,265
8. Cash Working Capital	20,571,142	0		20,571,142
9. Working Funds	0	0		0
10. Prepayments	0	0		0
11. Amortizable Balances	10,736,494	(517,566)	(C)	10,218,928
		(159,588)	(D)	(159,588)
Less:				
12. Customer Advances	(\$999,423)	\$0		(\$999,423)
13. Customer Deposits	(10,227,834)	0		(10,227,834)
14. Acc. Def. Income Taxes	(144,538,882)	(131,307)	(B)	(144,670,189)
15. Acc. Investment Tax Credit	(3,058,358)	0		(3,058,358)
16. Total Rate Base	<u>\$452,600,566</u>	<u>(\$53,148,896)</u>		<u>\$399,451,670</u>

Sources:

(A) Company Filing, Schedule No. 1-B, page 2 of 5.

(B) Schedule JDC-4.

(C) Reverse DPL Adjustment 20, AMI Deferred Costs.

(D) Reverse Adjustment 25, Credit Facilities Cost.

Schedule JDC-3

DELMARVA POWER AND LIGHT COMPANY

TEST PERIOD ENDING MARCH 31, 2009

OPERATING INCOME SUMMARY

		<u>Reference</u>
1. Company Claim	<u>\$19,753,719</u>	(A)
2. Salaries and Wages	\$ 115,558	JDC-5
3. Incentive Compensation	1,281,349	JDC-6
4. OPEB	418,241	(B)
5. Pension Expense	3,364,645	(C)
6. Plant Reliability Closings	513,963	JDC-4
7. AFUDC	(253,479)	(D)
8. AMI	207,146	(E)
9. Injuries and Damages	80,181	(F)
10. Uncollectible Expense	349,691	(G)
11. Storm Damage	652,372	(H)
12. Management Audit	58,960	(I)
13. Energy Experts	877,260	(J)
14. Credit Facility	78,393	(K)
15. Pro Forma Benefits Expense	182,831	(L)
16. Interest Synchronization	<u>(755,398)</u>	JDC-7
17. Total All Income Adjustments	\$ 7,171,714	
18. Net Operating Income	<u>\$26,925,433</u>	

Source:

(A) DPL Schedule No. 1-B, p.5 of 5.
 (B) Reverse DPL Adj. 8
 (C) Reverse DPL Adj. 9.
 (D) DPL Schedule No. 1-B, P. 5 of 5.
 (E) Reverse DPL Adj. 20.
 (F) Reverse DPL Adj. 3.

(G) Reverse DPL Adj. 4.
 (H) Reverse DPL Adj. 11.
 (I) Reverse DPL Adj. 13.
 (J) Reverse DPL Adj. 14.
 (K) Reverse DPL Adj. 25.
 (L) Reverse DPL Adjustment 7.

DELMARVA POWER AND LIGHT COMPANY

TEST PERIOD ENDING MARCH 31, 2009

RELIABILITY PLANT CLOSINGS

Company Claim:			<u>Plant</u>	<u>Depreciation Reserve</u>	<u>Deferred Taxes</u>	<u>Operating Income</u>
1. Reliability Closings July 2009	(A)	\$	19,560,177	\$ (6,389,451)	\$ (79,637)	\$ (347,904)
2. Reliability Closings December 2009	(B)		<u>10,680,147</u>	<u>(2,399,235)</u>	<u>(51,670)</u>	<u>(166,059)</u>
3. Total Claim (L.1 + L.2)		\$	<u>30,240,324</u>	<u>\$ (8,788,686)</u>	<u>\$ (131,307)</u>	<u>\$ (513,963)</u>
4. Recommended Adjustment		\$	<u>(30,240,324)</u>	<u>\$ 8,788,686</u>	<u>\$ 131,307</u>	<u>\$ 513,963</u>

Sources:

(A) Company Filing, Adjustment 18.

(B) Company Filing, Adjustment 19.

Schedule JDC-5

DELMARVA POWER AND LIGHT COMPANY

TEST PERIOD ENDING MARCH 31, 2009

OUT OF PERIOD WAGE INCREASES

DPL Claimed Wage Expenses: (A)

1. 3% June 2009		\$	71,222
2. 1.5% February 2010			74,853
3. 1.5% June 2010			30,681
4. 1.5% February 2011			<u>17,967</u>
5. Total Out of Period Claimed Expense		\$	194,723
6. Income Taxes @	40.655%		<u>79,165</u>
7. Operating Income Impact		\$	<u><u>115,558</u></u>

Sources:

(A) DPL Adjustment 5, per Response to DPA-A-119 a.

DELMARVA POWER AND LIGHT COMPANY**TEST PERIOD ENDING MARCH 31, 2009****NON-MANAGEMENT INCENTIVE COMPENSATION**

		(A)
1. PHI ServCo Expense Claimed	\$	1,796,941
2. DPL Non-Exec Incentive Compensation Claimed		<u>362,212</u>
3. Recommended Disallowance (L.2 - L.1)	\$	2,159,153
4. Income Taxes @	40.655%	<u>877,804</u>
5. Operating Income Impact		<u>\$ 1,281,349</u>

Sources:

(A) Response to DPA-A-96.

DELMARVA POWER AND LIGHT COMPANY

TEST PERIOD ENDING MARCH 31, 2009

INTEREST SYNCHRONIZATION

1. Pro Forma Rate Base		\$399,451,670	(A)
2. Weighted Cost of Debt		<u>2.86%</u>	(B)
3. Pro Forma Interest Expense - LTD		\$11,424,957	
4. Company Claim		<u>13,283,026</u>	(C)
5. Increase in Taxable Income		\$1,858,069	
6. Income Taxes @	40.655%	<u>\$ 755,398</u>	
7. Operating Income		<u>\$ (755,398)</u>	

Sources:

(A) Schedule JDC-1.

(B) Schedule ACC-2.

(C) Company Filing, Workpaper Adjustment # 27 & 28.

APPENDIX A
JAMES D. COTTON TESTIMONY LIST

*The Columbia Group, Inc.**Testimonies of James D. Cotton*

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
United Water Delaware	W	Delaware	09-60	6/09	Revenue Requirements	Division of the Public Advocate
Investigation on Commission's Jurisdiction to Grant/Revoke CPCN's to Water Utilities	W	Delaware	Reg. Docket No. 51	3/09	Advances & Contributions in Aid of Construction (Oral testimony)	Division of the Public Advocate
Artesian Water Company	W	Delaware	08-96	9/08	Revenue Requirements	Division of the Public Advocate
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Incentive Programs	Division of Rate Counsel
Chesapeake Utilities Corporation	E	Delaware	07-186	12/07	Revenue Requirements	Division of the Public Advocate
Public Service Company of New Mexico	E	New Mexico	07-00077-UT	10/07	Revenue Requirements	New Mexico Office of Attorney General
Investigation regarding whether Water Utilities require CIAC or Advances	W	Delaware	Reg. Docket No. 15	5/05	Advances & Contributions in Aid of Construction	Division of the Public Advocate
Generic Proceeding to establish Reasonable Cost Threshold for Renewable Energy	E	New Mexico	04-00253-UT	10/04	Renewable Cost Threshold	New Mexico Attorney General
Long Neck Water Company	W	Delaware	04-31	7/04	Revenue Requirements Cost of Capital Public Policy	Division of the Public Advocate
Tidewater Utilities, Inc.	W	Delaware	04-152	7/04	Revenue Requirements Accounting Issues Public Policy	Division of the Public Advocate
Public Service Company of New Mexico	G	New Mexico	03-000-17 UT	5/03	Revenue Requirements	New Mexico Attorney General
Entergy New Orleans	E/G	Louisiana	UD-01-4 UD-03-1	4/03	Electric and Gas Rates	Thomas P. Lowenburg, et al
Rockland Electric Company	E	New Jersey	ER02080614	1/03	Deferred Balance	Division of the Ratepayer Advocate
Public Service Company of New Mexico	E	New Mexico	3137	11/02	Merchant Plant Filing	New Mexico Attorney General
Artesian Water Company	W	Delaware	02-109	9/02	Revenue Requirements Asymmetrical Pricing Affiliated Interest Charges Public Policy - Advances and Contributions	Division of the Public Advocate
Bayview Water Company	W	New Jersey	WR01120818	8/02	Revenue Requirements	Division of the Ratepayer Advocate
Savannah Electric and Power Company	E	Georgia	14618-U	3/02	Revenue Requirements	Consumers' Utility Counsel
Entergy New Orleans	E/G	Louisiana	UD-00-2	2/02	Accounting (Additional)	Thomas P. Lowenburg, et al
Entergy New Orleans	E/G	Louisiana	UD-00-2	1/02	Excess Earnings	Thomas P. Lowenburg, et al

*The Columbia Group, Inc.**Testimonies of James D. Cotton*

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Yankee Gas Services	G	Connecticut	01-05-19PH01	9/01	Revenue Requirements	Office of Consumer Counsel
Artesian Water Company	W	Delaware	00-649	4/01	Financial Testimony	Division of the Public Advocate
Southern Connecticut Gas Company	G	Connecticut	00-12-08	3/01	Financial Audit	Office of Consumer Counsel
El Paso Electric Company	E	New Mexico	3170	9/00	Electric Restructuring	Office of the New Mexico Attorney General
Consolidated Edison, Inc. and Northeast Utilities	E/G	Connecticut	00-01-11	2/00	Merger Issues	Office of Consumer Counsel
Connecticut Natural Gas Company	G	Connecticut	99-09-03	1/00	Pro Forma Revenues	Office of Consumer Counsel
Artesian Water Company	W	Delaware	99-197	9/99	Revenue Requirements	Division of the Public Advocate
Energy Master Plan Phase 1 Proceeding - Restructuring	E	New Jersey	EX94120585U, EO97070457	3/98	Electric Restructuring Issues	Division of the Ratepayer Advocate
Southern Connecticut Gas Company	G	Connecticut	97-12-21	3/98	Affiliated Interests and Off-System Sales	Office of Consumer Counsel
PNM Gas Services	G	New Mexico	2762	2/98	Revenue Requirements	Office of the Attorney General
Artesian Water Company	W	Delaware	97-340	2/98	Revenue Requirements	Division of the Public Advocate
Rockland Electric Company Stranded Costs and Unbundling	E	New Jersey	EO97070465, EO97070464	1/98	Stranded Costs	Division of the Ratepayer Advocate
Generic Investigation Regarding Gas Unbundling Issues	G	Connecticut	97-07-11	12/97	Rate Design and Service Unbundling	Office of Consumer Counsel
Grumman Aerospace Electric Application	E	New York	97-E-0919	11/97	Competition	County of Nassau
Review of Electric Companies Cost of Service and Unbundled Tariffs	E	Connecticut	97-01-15	8/97	Rate Design and Service Unbundling	Office of Consumer Counsel
Artesian Water Company	W	Delaware	97-66	7/97	Revenue Requirements	Division of the Public Advocate
Zia Natural Gas Company	G	New Mexico	2745	4/97	Revenue Requirements	Office of the Attorney General
Virginia Electric and Power Company	E	Virginia	PUE 950131	10/96	Anti-Competitive Practices and Rate Design	City of Richmond
United Illuminating	E	Connecticut	96-03-29	7/96	Revenue Requirements	Office of Consumer Counsel
Grumman Aerospace Electric Application	E	New York	95-M-1133	4/96	Regulatory Policy	County of Nassau
PNM Gas Services	G	New Mexico	2662	1/96	Revenue Requirements	Office of Attorney General

*The Columbia Group, Inc.**Testimonies of James D. Cotton*

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
T.W. Phillips Gas and Oil Company	G	Pennsylvania	R-00953406	10/95	Revenue Requirements	Office of Consumer Advocate
Maine Public Service Company	E	Maine	95-052	8/95	Jurisdictional Allocations, Rate Plan, Productivity	Maine Public Service Commission Staff
Peoples Natural Gas Company	G	Pennsylvania	R-00943252 R-00953318	3/95	Accounting	Office of Consumer Advocate
North Penn Gas Company	G	Pennsylvania	R-00943245	3/95	Accounting	Office of Consumer Advocate
Artesian Water Company	W	Delaware	94-164	3/95	Revenue Requirements	Division of the Ratepayer Advocate
General Waterworks of Pennsylvania, Inc.	W	Pennsylvania	R-00943152	12/94	Revenue Requirements	Office of Consumer Advocate
Columbia Gas of Pennsylvania	G	Pennsylvania	M-00940568	10/94	Take or Pay Refunds	Office of Consumer Advocate
UGI Utilities, Inc.	G	Pennsylvania	M-00940549	10/94	Take or Pay Refunds	Office of Consumer Advocate
National Fuel Gas Distribution Company	G	Pennsylvania	R-942991	6/94	Revenue Requirements	Office of Consumer Advocate
Allied Gas Company	G	Pennsylvania	R-932952	5/94	Revenue Requirements	Office of Consumer Advocate
US West Communications	T	Arizona	E-1051-93-183	3/94	Revenue Requirements	Residential Utility
Peoples Natural Gas	G	Pennsylvania	R-932866	2/94	Revenue Requirements	Office of Consumer Advocate
The Southern Connecticut Gas Company	G	Connecticut	93-03-09	8/93	Revenue Requirements, Accounting Policy	Office of Consumer Counsel
Virginia Electric and Power Company	E	Virginia	PUE 920041	2/93	Regulatory Policy	City of Richmond
Pennsylvania Gas and Water Company - Scranton	G/W	Pennsylvania	R-00922482	1/93	Accounting	Office of Consumer Advocate
Pennsylvania Gas and Water Company	G/W	Pennsylvania	R-00922404	11/92	Accounting (Surrebuttal)	Office of Consumer Advocate
UGI Utilities, Inc. Electric Utilities Division	G	Pennsylvania	R-00922195	10/92	Accounting	Office of Consumer Advocate
Pennsylvania Gas and Water Company	G/W	Pennsylvania	R-00922404	10/92	Accounting	Office of Consumer Advocate
The Jersey Central Power and Light Company	E	New Jersey	PUC00661-92 ER91121820J	7/92	Accounting	Rate Counsel
Shenango Valley Water Company	W	Pennsylvania	R-912060	1/92	Accounting	Office of Consumer Advocate
Pennsylvania-American Water Company	W	Pennsylvania	R-911909	10/91	Accounting	Office of Consumer Advocate
Jamaica Water Supply Company	W	New York	90-W-0295	10/91	Excess Earnings	Nassau County, Town of Hempstead

*The Columbia Group, Inc.**Testimonies of James D. Cotton*

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
National Fuel Gas Distribution Corp.	G	Pennsylvania	R-911912	7/91	Accounting, Regulatory Policy	Consumer Advocate
Virginia Electric & Power Company	E	Virginia	PUE87-0093	2/91	Regulatory Policy	City of Richmond
Elizabethtown Water Co.	W	New Jersey	PUC04416-90 WR9005-0497J	11/90	Accounting, Regulatory Policy	Rate Counsel
Artesian Water Company	W	Delaware	90-10	8/90	Accounting	Commission Staff
Jamaica Water Supply Company	W	New York	90-W-0295	8/90	Regulatory Policy Accounting	Nassau County, Town of Hempstead
New York Telephone	T	New York	90-C-0191	7/90	Accounting, Affiliated Interests	NY State Consumer Protection Board
Pennsylvania-American Water Company	W	Pennsylvania	R-901652	6/90	Accounting	Consumer Advocate
Kent County Water Authority	W	Rhode Island	1952	6/90	Accounting Regulatory Policy	Division of Public Utilities & Carriers
Columbia Gas of Pennsylvania	G	Pennsylvania	R-891468	4/90	Accounting	Consumer Advocate
Valley Utilities Company	SW	Pennsylvania	R-891358	10/89	Regulatory Policy Accounting	Consumer Advocate
Union County Utilities Authority	SW	New Jersey	PUC 567-89 BPU8711-1308	9/89	Accounting	Rate Counsel
Jamaica Water Supply Company	W	New York	89-W-062	8/89	Regulatory Policy Rate Design	Nassau County, Towns of Hempstead, N. Hempstead
Interstate Navigation Co.	N	Rhode Island	D-89-7	7/89	Regulatory Policy Accounting, Cost of Cap.	Division of Public Utilities & Carriers
Morris County Transfer Station	SW	New Jersey	PUC1487-88 SE87111370	6/89	Regulatory Policy Accounting	Rate Counsel
Automated Modular Systems	SW	New Jersey	PUC1769-88	5/89	Accounting Regulatory Policy	Rate Counsel
Equitable Gas Company	G	Pennsylvania	M-860105 F050C001	12/88	Accounting	Consumer Advocate
Equitable Gas Company	G	Pennsylvania	R-880971	8/88	Accounting	Consumer Advocate
Jamaica Water Supply Company	W	New York	88-W-080	6/88	Rate Return, Accounting	Towns of Hempstead, N. Hempstead
Arizona Public Service Company	E	Arizona	U-1345-88-0033	6/88	Federal Income Taxes	Residential Utility Consumer Office
Western Pennsylvania Water Company	W	Pennsylvania	R-870825 C-871582	1/88	Rate Design	City of Pittsburgh
Artesian Water Company	W	Delaware	87-3	10/87	Accounting	Commission Staff
Duquesne Light Company	E	Pennsylvania	R-870651	9/87	Accounting	Consumer Advocate
Providence Gas Company	G	Rhode Island	1673	1987	Regulatory Policy	R.I. PUC

*The Columbia Group, Inc.**Testimonies of James D. Cotton*

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Bell Telephone Company of Pennsylvania	T	Pennsylvania	C-860923	3/87	Accounting	Consumer Advocate
Wilmington Suburban Water Corporation	W	Delaware	86-25	3/87	Accounting (Surrebuttal)	Commission Staff
Mountain Bell Telephone Relationships with Affiliates and Subsidiaries	T	Utah	86-049-01	3/87	Accounting	Committee of Consumer Services
Mountain Bell Telephone Operator Services Subsidiary	T	Utah	86-049-07	2/87	Accounting	Committee of Consumer Services
Wilmington Suburban Water Corporation	W	Delaware	86-25	2/87	Accounting	Commission Staff
All Public Utilities in Delaware	ALL	Delaware	Reg. No. 15	1987	Policy	Commission Staff
Woonsocket Water Department	W	Rhode Island	-	12/86	Accounting	Div. of Public Utilities
Artesian Water Company	W	Delaware	86-26	12/86	Accounting	Commission Staff
Wilmington Suburban Water Corporation	W	Delaware	86-25	9/86	Accounting	Commission Staff
Western Pennsylvania Water Company	W	Pennsylvania	R-8600397	8/86	Accounting	Consumer Advocate
York Water Company	W	Pennsylvania	R-850268	7/86	Accounting (Surrebuttal)	Consumer Advocate
Sun City Water Company	W	Arizona	E-86-020	6/86	Accounting	Sun City Taxpayers' Assn.
Sun City Sewer Company	WW	Arizona	E-86-020	6/86	Accounting	Sun City Taxpayers' Assn.
Sun City West Utilities	W/WW	Arizona	E-86-020	6/86	Accounting	Sun City Taxpayers' Assn.
Separation of Costs of Regulated Telephone Service From Costs of Nonregulated Activities	T	FCC	86-111	6/86	Report	NASUCA
New Jersey Bell Telephone Company	T	New Jersey	845-856 Phase II	2/86	CSI/NSI Contract Affiliated Relationships	New Jersey Public Advocate
Chesapeake & Potomac Telephone Company of Maryland	T	Maryland	7903	12/85	Regulatory Policy Affiliated Relationships	Commission Staff
Equitable Gas Company	G	Pennsylvania	R-842769 R-850038	5/85	Accounting	Consumer Advocate
Bell Telephone Company of Pennsylvania	T	Pennsylvania	R-842779	5/85	Accounting	Consumer Advocate
New York Telephone Company	T	New York	28961	3/85	Accounting	Consumer Coalition
Fitchburg Gas & Electric Co.	E/G	Massachusetts	-	11/84	Accounting	Attorney General
Philadelphia Suburban Water Company	W	Pennsylvania	-	8/84	Accounting	Consumer Advocate

*The Columbia Group, Inc.**Testimonies of James D. Cotton*

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Philadelphia Suburban Water Company	W	Pennsylvania	-	7/84	Accounting	Consumer Advocate
Wakefield Water Company	W	Rhode Island	-	4/84	Accounting	Division Witness
National Fuel Gas	G	Pennsylvania	-	3/84	Accounting	Consumer Advocate
Long Island Lighting Company	E	New York	28553	3/84	Accounting	Counties of Suffolk, Nassau, etc.
Diamond State Telephone	T	Delaware	83-12	12/83	Accounting	Commission Staff
Long Island Lighting Company	E	New York	28553/4	7/83	Finance	Counties of Suffolk, Nassau, etc.
South Carolina Electric and Gas Company	E/G	S. Carolina	80CP403454	5/83	Accounting	Consumer Advocate
Connecticut Natural Gas Company	G	Connecticut	830101	4/83	Accounting	Office of Consumer Counsel
Pennsylvania Power and Light Company	E	Pennsylvania	R-822169	3/83	Accounting	Consumer Advocate
Pennsylvania Power Company	E	Pennsylvania	R-821918C002	3/83	Accounting	Consumer Advocate
Diamond State Telephone	T	Delaware	82-32	11/82	Accounting	Commission Staff
Long Island Lighting Company	E	New York	28176 28177	6/82	Accounting	Suffolk County, etc.
Bell Telephone Company of Pennsylvania	T	Pennsylvania	R-811819	4/82	Accounting	Consumer Advocate
South Jersey Gas Company	G	New Jersey	818-754	3/82	Accounting	Public Advocate
New York Telephone	T	New York	27995 27710-II	9/81	Accounting	New York Attorney General NY CPB, NYC
Pennsylvania Power Company	E	Pennsylvania	-	8/81	Accounting	Consumer Advocate
Southwestern Bell Telephone Company	T	Kansas	1238110	1981	Accounting Affiliated Interests	Kansas Commission
Pennsylvania Gas & Water Company	G/W	Pennsylvania	R-80071265	11/80	Accounting	Consumer Advocate
Duquesne Light Company	E	Pennsylvania	-	9/80	Accounting	Consumer Advocate
Pennsylvania Power and Light	E	Pennsylvania	R-80031114	9/80	Accounting	Consumer Advocate
West Penn Power Company	E	Pennsylvania	-	8/80	Accounting	Consumer Advocate
New England Telephone	T	Vermont	-	4/80	Accounting Regulatory Policy	Vermont PUC
Philadelphia Suburban Water	W	Pennsylvania	-	9/79	Accounting	Consumer Advocate
West Penn Power Company	E	Pennsylvania	-	4/79	Accounting	Consumer Advocate
Columbia Gas of Ohio	G	Ohio	77-1428	3/79	Accounting	Ohio Consumers' Counsel

The Columbia Group, Inc.

Testimonies of James D. Cotton

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Consolidated Edison Company	E	New York	27353	1978	Accounting	Consumer Protection Board

APPENDIX B
REFERENCED INTERROGATORY RESPONSES

DPA-A-96

DPA-A-119 a

PSC DOCKET NO. 09-414
DIVISION OF THE PUBLIC ADVOCATE'S
FIRST SET OF DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY
ACCOUNTING SET 1

Question No. : DPA-A-96

Please provide a listing of the incentive compensation charged to O&M for incentive compensation for non-executive employees.

RESPONSE:

**DPL Non-Executive Incentive Expenses
12 Months Ending March 2009**

GL Acct	Item	DPL Non-Exec	PHI ServCo Non-Exec
710060	Accrued Liability- AIP-amt. allocated to DPL	\$ 662,775	\$ 9,430,351
710061	Accrued Liability-Incentive Current-allocated to DPL	\$ -	\$ 5,162,345
710055	Accrued Liability-Safety Incentive - allocated to DPL	\$ 210,829	\$ 221,205
710066	Accrued Liability - Payout vs. Actual-allocated to DPL	\$ (39,472)	\$ 1,273,374
710020	Salaries-Incentive- allocated to DPL	\$ 5,811	\$ 236,939
710022	Salaries-Employee Recognition- allocated to DPL	\$ 34,459	\$ 101,070
Total Expense		874,401	16,425,284
DPL Allocation			26.41%
Expense Allocated to DPL			4,337,917
Electric vs. Gas Allocation		79.00%	79.00%
Expense Allocated to Electric		690,776	3,426,955
Distribution vs. Transmission Allocation		89.07%	89.07%
Expense Allocated to Distribution		615,275	3,052,389
Delaware vs. Maryland Allocation		58.87%	58.87%
Expense Allocated to DE Distribution		362,212	1,796,941

Respondent: W. Michael VonSteuben

PSC DOCKET NO. 09-414
DIVISION OF THE PUBLIC ADVOCATE'S
SECOND SET OF DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY
ACCOUNTING SET 2

Question No. : DPA-A-119

Regarding Adjustment 5, Wage, Salary and FICA Expenses, please: a. Provide the effect on the filing separately for the annualization of the 3% wage increase in June 2008, the 3% increases in February and June 2009 and the 1.5% increase in 2010. b. Explain why Adjustment 5.1 shows declining expenses in many months, such as from March 09 to April 09, despite an increase in wages. c. Provide fulltime employee equivalents used to develop the wages for union and non-union employees shown at Adjustment 5.1, for each month through April 2011.

RESPONSE:

- a. See attached.
- b. Declining expenses from month to month are part of the regular cycle of expenses. The number of employees and paychecks vary by month, leading to higher and lower expenses on a monthly basis.
- c. The test period for the current proceeding is the 12 months ending March 2009. The Company did not use a projection of manpower, but rather used the test period level. See attached.

Respondent: W. Michael VonSteuben

Delmarva Power Light Company
Effect of Wage Increases

Docket No. 09-414
DPA-A-119 a.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Line No.	Wage Increase Time Period	O&M	O&M Earnings	FICA	FICA Earnings	Total Earnings
1	3% June 2008	\$27,392	\$16,256	\$1,477	\$877	\$17,132
2						
3	3% February 2009	\$196,662	\$116,709	\$10,606	\$6,294	\$123,003
4						
5	3% June 2009	\$113,872	\$67,577	\$6,141	\$3,644	\$71,222
6						
7	1.5% February 2010	\$119,678	\$71,023	\$6,454	\$3,830	\$74,853
8						
9	1.5% June 2010	\$49,054	\$29,111	\$2,645	\$1,570	\$30,681
10						
11	1.5% February 2011	\$28,726	\$17,048	\$1,549	\$919	\$17,967
12						
13	Total	\$535,384	\$317,724	\$28,872	\$17,134	\$334,858